

**INTER-AMERICAN INVESTMENT CORPORATION**

Financial Statements

as of September 30, 2016 and 2015

INTER-AMERICAN INVESTMENT CORPORATION  
**BALANCE SHEET (Unaudited)**

| USD Thousands  | September 30               |                            |
|--|----------------------------|----------------------------|
|  | 2016                       | 2015                       |
| <b>ASSETS</b>  |                            |                            |
| Cash and cash equivalents  | \$ 35,380                  | \$ 16,960                  |
| Investment securities  |                            |                            |
| Available-for-sale   | 669,512                    | 531,934                    |
| Trading  | 442,356                    | 420,673                    |
| Investments  |                            |                            |
| Loan investments   | 851,534                    | 922,095                    |
| Less Allowance for losses  | (35,805)                   | (39,608)                   |
|  | <u>815,729</u>             | <u>882,487</u>             |
| Equity investments (\$13,565 and \$10,442 carried at fair value, respectively) | 34,582                     | 26,581                     |
| Total investments  | <u>850,311</u>             | <u>909,068</u>             |
| Receivables and other assets   | 26,422                     | 13,826                     |
| <b>Total assets</b>  | <b><u>\$ 2,023,981</u></b> | <b><u>\$ 1,892,461</u></b> |
| <b>LIABILITIES AND CAPITAL</b>   |                            |                            |
| Accounts payable and other liabilities   | \$ 70,573                  | \$ 42,632                  |
| Interest and commitment fees payable   | 2,243                      | 1,382                      |
| Borrowings, short-term   | 30,651                     | 449,611                    |
| Borrowings, long-term  | 1,037,062                  | 544,193                    |
| <b>Total liabilities</b>   | <b><u>1,140,529</u></b>    | <b><u>1,037,818</u></b>    |
| Capital  |                            |                            |
| Subscribed capital   | 1,509,430                  | 1,207,040                  |
| Additional paid-in capital   | 496,469                    | 309,634                    |
| Less Members subscriptions receivable  | (1,297,790)                | (813,511)                  |
|  | <u>708,109</u>             | <u>703,163</u>             |
| Retained earnings  | 193,140                    | 174,936                    |
| Accumulated other comprehensive income/(loss)                                  | (17,797)                   | (23,456)                   |
| <b>Total capital</b>   | <b><u>883,452</u></b>      | <b><u>854,643</u></b>      |
| <b>Total liabilities and capital</b>   | <b><u>\$ 2,023,981</u></b> | <b><u>\$ 1,892,461</u></b> |

*The accompanying notes are an integral part of these financial statements.*

INTER-AMERICAN INVESTMENT CORPORATION  
**STATEMENT OF INCOME (Unaudited)**

| USD Thousands  | Nine months ended September 30 |                        |
|--|--------------------------------|------------------------|
|  | 2016                           | 2015                   |
| <b>INCOME</b>  |                                |                        |
| Loan investments   |                                |                        |
| Interest and fees  | \$ 31,621                      | \$ 33,464              |
| Other income   | 1,808                          | 1,660                  |
|  | <u>33,429</u>                  | <u>35,124</u>          |
| Equity investments   |                                |                        |
| Changes in fair value  | 1,070                          | (2,855)                |
| Dividends  | 673                            | 307                    |
| Gain on sale   | 179                            | -                      |
| Other income   | -                              | 39                     |
|  | <u>1,922</u>                   | <u>(2,509)</u>         |
| Investment securities  | 7,904                          | 6,144                  |
| Advisory service, cofinancing, and other income  | 38,808                         | 3,794                  |
| <b>Total income</b>  | <u><b>82,063</b></u>           | <u><b>42,553</b></u>   |
| Borrowings-related expense   | 8,878                          | 7,214                  |
| <b>Total income, net of Borrowings-related expense</b>                                       | <u><b>73,185</b></u>           | <u><b>35,339</b></u>   |
| <b>PROVISION FOR LOAN INVESTMENT LOSSES</b>  | <b>(1,101)</b>                 | <b>(3,375)</b>         |
| <b>OTHER-THAN-TEMPORARY IMPAIRMENT LOSSES<br/>ON EQUITY INVESTMENTS (ALL CREDIT RELATED)</b> | <b>281</b>                     | <b>710</b>             |
| <b>OPERATING EXPENSES</b>  |                                |                        |
| Administrative   | 47,318                         | 26,537                 |
| Pension Plan and Postretirement Benefit Plan expense   | 6,060                          | 6,186                  |
| (Gain)/Loss on foreign exchange transactions, net  | 247                            | 489                    |
| Other expenses   | 386                            | -                      |
| <b>Total operating expenses</b>  | <u><b>54,011</b></u>           | <u><b>33,212</b></u>   |
| <b>NET INCOME</b>  | <u><b>\$ 19,994</b></u>        | <u><b>\$ 4,792</b></u> |

*The accompanying notes are an integral part of these financial statements.*

INTER-AMERICAN INVESTMENT CORPORATION  
**STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)  
AND CHANGES IN CAPITAL (Unaudited)**

**STATEMENT OF COMPREHENSIVE INCOME/(LOSS)**

| USD Thousands  | Nine months ended September 30 |                 |
|--|--------------------------------|-----------------|
|  | 2016                           | 2015            |
| <b>NET INCOME</b>  | \$ 19,994                      | \$ 4,792        |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>                                       |                                |                 |
| Unrealized gain/(loss) on investment securities<br>available-for-sale - Note 3 | 1,188                          | (96)            |
| <b>Total other comprehensive income/(loss)</b>                                 | 1,188                          | (96)            |
| <b>COMPREHENSIVE INCOME/(LOSS)</b>   | <b>\$ 21,182</b>               | <b>\$ 4,696</b> |

**STATEMENT OF CHANGES IN CAPITAL**

| USD Thousands                                     | Subscribed shares | Capital stock*    | Retained earnings | Accumulated other<br>comprehensive<br>income/(loss) | Total capital     |
|---|-------------------|-------------------|-------------------|---|-------------------|
| As of December 31, 2014                           | 70,590            | \$ 698,353        | \$ 170,144        | \$ (23,360)   | \$ 845,137        |
| Nine months ended September 30, 2015              |                   |                   |                   |   |                   |
| Net income  |                   | -                 | 4,792             | -   | 4,792             |
| Other comprehensive income/(loss)                 |                   | -                 | -                 | (96)  | (96)              |
| Change in subscribed shares                       | 50,114            |                   |                   |   |                   |
| Payments received for<br>capital stock subscribed |                   | 4,810             | -                 | -   | 4,810             |
| <b>As of September 30, 2015</b>                   | <b>120,704</b>    | <b>\$ 703,163</b> | <b>\$ 174,936</b> | <b>\$ (23,456)</b>                                  | <b>\$ 854,643</b> |
| As of December 31, 2015                           | 125,352           | \$ 703,163        | \$ 173,146        | \$ (18,985)   | \$ 857,324        |
| Nine months ended September 30, 2016              |                   |                   |                   |   |                   |
| Net income  |                   | -                 | 19,994            | -   | 19,994            |
| Other comprehensive income/(loss)                 |                   | -                 | -                 | 1,188   | 1,188             |
| Change in subscribed shares                       | 25,591            |                   |                   |   |                   |
| Payments received for<br>capital stock subscribed |                   | 4,946             | -                 | -   | 4,946             |
| <b>As of September 30, 2016</b>                   | <b>150,943</b>    | <b>\$ 708,109</b> | <b>\$ 193,140</b> | <b>\$ (17,797)</b>                                  | <b>\$ 883,452</b> |

\* Net of members subscriptions receivable.

*The accompanying notes are an integral part of these financial statements.*

INTER-AMERICAN INVESTMENT CORPORATION  
**STATEMENT OF CASH FLOWS (Unaudited)**

| USD Thousands   | Nine months ended September 30 |                    |
|---|--------------------------------|--------------------|
|   | 2016                           | 2015               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                |                    |
| Loan disbursements  | \$ (95,205)                    | \$ (200,924)       |
| Equity disbursements  | (4,866)                        | (5,650)            |
| Loan repayments   | 203,807                        | 290,499            |
| Returns of equity investments   | 228                            | 19                 |
| Maturities of held-to-maturity securities   | -                              | 39,850             |
| Available-for-sale securities   |                                |                    |
| Purchases   | (357,165)                      | (35,026)           |
| Sales and maturities  | 155,137                        | 85,591             |
| Capital expenditures  | (2,865)                        | (1,279)            |
| Proceeds from sales of recovered assets   | 227                            | 397                |
| <b>Net cash provided by/(used in) investing activities</b>                                  | <b>\$ (100,702)</b>            | <b>\$ 173,477</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                |                    |
| Repayments of borrowings  | (27,396)                       | (144,984)          |
| Proceeds from issuance of borrowings  | 500,000                        | 42,066             |
| Capital subscriptions   | 4,946                          | 4,810              |
| <b>Net cash provided by/(used in) financing activities</b>                                  | <b>\$ 477,550</b>              | <b>\$ (98,108)</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                |                    |
| Net income  | 19,994                         | 4,792              |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: |                                |                    |
| Change in fair value of equity investments  | (1,070)                        | 2,855              |
| Provision for loan investment losses  | (1,101)                        | (3,375)            |
| Change in fair value of investment securities   | (1,458)                        | (580)              |
| Change in receivables and other assets  | (2,680)                        | 7,555              |
| Change in accounts payable and other liabilities  | 4,526                          | (1,113)            |
| Trading investment securities   |                                |                    |
| Purchases   | (1,118,224)                    | (630,802)          |
| Sales and maturities  | 739,683                        | 540,606            |
| Other, net  | 3,724                          | 14,263             |
| <b>Net cash provided by/(used in) operating activities</b>                                  | <b>\$ (356,606)</b>            | <b>\$ (65,799)</b> |
| <b>Net effect of exchange rate changes on cash and cash equivalents</b>                     | <b>192</b>                     | <b>(181)</b>       |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                 | <b>20,434</b>                  | <b>9,389</b>       |
| <b>Cash and cash equivalents as of January 1</b>  | <b>14,946</b>                  | <b>7,571</b>       |
| <b>Cash and cash equivalents as of September 30</b>   | <b>\$ 35,380</b>               | <b>\$ 16,960</b>   |
| <b>Supplemental disclosure:</b>   |                                |                    |
| Interest paid during the period   | \$ 8,068                       | \$ 6,873           |

*The accompanying notes are an integral part of these financial statements.*

## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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### Purpose

The Inter-American Investment Corporation (the Corporation), a multilateral organization, was established in 1986 and began operations in 1989 with the mission of promoting the economic development of its regional developing member countries, which are located in Latin America and the Caribbean, by encouraging the establishment, expansion, and modernization of private enterprises in such a way as to supplement the activities of the Inter-American Development Bank (IDB). The IIC makes loans, guarantees and equity investments where sufficient private capital is not otherwise available on adequate terms in the market. The IIC also arranges additional project funding from other investors and lenders, either through joint financing or through loan syndications, loan participations, underwritings and guarantees. In addition, the IIC provides financial and technical advisory services to clients with resources specifically provided for this purpose by its member countries. As of the date hereof, 45 member countries have subscribed to share capital in the IIC. The IIC conducts its operations principally in United States dollars, and operates within 26 of its member countries (all 26 being located in Latin America and the Caribbean) (the Regional Developing Member Countries). The IIC is an autonomous international organization and a member of the Inter-American Development Bank Group (the IDB Group), which also includes the IDB and the Multilateral Investment Fund (MIF).

On March 30, 2015, the Boards of Governors of the IIC and the IDB approved the transfer to the IIC of all operational and administrative functions associated with the IDB private sector and non-sovereign guaranteed (NSG) activities (the Reorganization) so as to maximize development impact and offer more comprehensive services to clients. The Reorganization took effect on January 1, 2016. As of such date, the IIC is responsible for carrying out and administering all new NSG operations, as well as administering existing IIC and IDB NSG legacy operations. In addition, during a seven-year period starting on January 1, 2016, certain operations originated by the IIC are to be financed wholly or partially by the IDB, including with funds administered by the IDB. The NSG portfolio of operations funded by the IDB will remain as assets on its balance sheet. Also, beginning January 1, 2016, an expanded number of support functions are being delivered by the IDB to the IIC.

### 1. Basis of Presentation

Certain financial information that is normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), but is not required for interim reporting purposes, has been condensed or omitted.

The accounting and reporting policies of the Corporation conform to United States generally accepted accounting principles (GAAP). References to GAAP issued by the Financial Accounting Standards Board (FASB) in these notes are to the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC.

All amounts presented in the accompanying financial statements and notes are expressed, unless otherwise indicated, in thousands of dollars of the United States of America (U.S. dollars, USD, or \$), which is the Corporation's functional and reporting currency.

### 2. Summary of Significant Accounting Policies

**Use of estimates** – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A significant degree of judgment has been used in the determination of the adequacy of the allowance for losses on loan investments, the evaluation for other-than-temporary impairment on available-for-sale and held-to-maturity investment securities and equity investments, the fair value of investment securities, loan and equity investments, borrowings, and derivative instruments, and the determination of the net periodic benefit cost from pension and postretirement benefit plans and the present value of benefit obligations. There are inherent risks and uncertainties related to the Corporation's operations. The possibility exists that changing economic conditions could impact the Corporation's clients and the global investment markets and have an adverse effect on the financial position of the Corporation.

**Cash and cash equivalents** – Highly liquid investment instruments purchased with original maturities of three months or less, other than those held as trading securities, are considered cash equivalents. The Corporation may hold cash deposits in excess of FDIC insured limits.

**Investment securities** – As part of its overall portfolio management strategy, the Corporation invests in corporate securities, government, supranational and agency securities according to the Corporation's investment guidelines. These investments include fixed and floating rate bonds, notes, bills, certificates of deposit, commercial paper, and mutual funds.

Investment securities held by the Corporation are classified based on management's intention on the date of purchase. Purchases and sales of investment securities are recorded on a trade date basis. The Corporation's portfolio classified as trading is stated at fair value with unrealized gains and losses reported in income from investment securities. Fixed-term securities classified as held-to-maturity represent securities that the Corporation has both the ability and the intent to hold until maturity and are carried at amortized cost. All other securities are classified as available-for-sale and carried at fair value with net unrealized gains or losses included in Accumulated other comprehensive income<sup>1</sup>. Interest and dividends on securities, amortization of premiums, accretion of discounts, and realized gains and losses on trading and available-for-sale securities are reported in income from investment securities. The Corporation's investments in debt securities in Latin American and Caribbean markets resulting from development activities are classified as held-to-maturity and carried at amortized cost in the balance sheet. The Corporation held no held-to-maturity investments as of September 30, 2016 and 2015.

The Corporation evaluates its available-for-sale and held-to-maturity securities whose values have declined below their amortized cost to assess whether the decline in fair value is other than temporary. The Corporation considers various factors in determining whether a decline in fair value is other than temporary including the issuer's financial condition, the effects of changes in interest rates or credit spreads, the expected recovery period, and other quantitative and qualitative information. The valuation of securities for impairment is a process subject to estimation, judgment and uncertainty and is intended to determine whether declines in fair value of investment securities should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions and future changes in assessments of the aforementioned factors. It is expected that such factors will change in the future. For impairments of available-for-sale and held-to-maturity securities that are deemed to be other than temporary, the credit portion of an other-than-temporary

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<sup>1</sup> References to captions in the financial statements are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the financial statements.

## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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impairment loss is recognized in earnings and the non-credit portion is recognized in Accumulated other comprehensive income.

**Loan and equity investments** – Loan and equity investment commitments are legal obligations when the loan or equity agreement is signed and are recorded as assets when disbursed. Loans are carried at the principal amount outstanding adjusted for allowance for losses. The Corporation, in certain instances, obtains collateral security such as, but not limited to, mortgages and third-party guarantees. Equity investments include ownership interests in limited partnerships and similar fund structures (LPs) and direct equity investments primarily in small and medium-sized enterprises and financial institutions. Direct equity investments for which the Corporation maintains specific ownership accounts—and for which the Corporation does not have a controlling financial interest or significant influence—are carried at cost less impairment, if any. For LPs, the Corporation has elected fair value accounting under ASC Topic 825 and, as a practical expedient, relies on the reported net asset value (NAV) as the estimate of fair value. The NAVs provided by the LPs are derived from the fair value of the underlying investments held by the LP.

The Corporation considers a loan impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the loan's contractual terms. Information and events, with respect to the borrower and/or the economic and political environment in which it operates, considered in determining that a loan is impaired include, but are not limited to, the borrower's financial difficulties, the borrower's competitive position in the marketplace, the risk associated with the underlying collateral, the willingness and capacity of the sponsor who organized the project to support the investment, the borrower's management team, as well as geopolitical conflict and macroeconomic crises.

Equity investments that are not accounted for at fair value are assessed for impairment no less than annually on the basis of the latest financial information, operating performance and other relevant information including, but not limited to, macroeconomic conditions, specific industry trends, the historical performance of the company, and the Corporation's intent to hold the investment for an extended period. When impairment is identified and is deemed to be other than temporary, the equity investment is written down to the fair value, which becomes the new carrying value for the equity investment. Impairment losses are not reversed for subsequent recoveries in fair value of the equity investment unless sold at a gain.

**Variable interest entities** – ASC Topic 810, *Consolidation*, provides for consolidation when a reporting entity is the primary beneficiary for a variable interest entity (VIE), or if an entity does not meet the definitional elements of a VIE, consolidation is required if a reporting entity has a controlling financial interest and/or holds a majority voting interest in an entity. The Corporation evaluated its investees and other entities with which the Corporation has contractual and other arrangements, and concluded that the Corporation is not the primary beneficiary for any VIEs, nor does the Corporation have a significant variable interest in any VIE, which would require disclosure.

Additionally, the Corporation does not hold a controlling financial interest nor does the Corporation hold a majority voting interest in any other entity, nor significant influence over any entities. The Corporation holds investment interests in certain investment funds, which are structured as LPs. The Corporation's direct equity investments are accounted for at cost. The Corporation's interests in LPs are accounted for at fair value in accordance with ASC Topic 820, *Fair Value Measurements*.



## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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**Allowance for losses on loan investments** – The allowance for losses represents management’s estimate of incurred losses in the loan investment portfolio as of the balance sheet date and is recorded as a reduction to loan investments. The allowance for losses is increased by charges to expense, through the provision for loan investment losses, and decreased by net charge-offs, or release of provision for improvement in the number and/or severity of previously estimated losses. Considerable judgment is required to estimate the allowance for losses including determination of appropriate risk ratings, potential severity of losses, expected performance of individual loan investments, economic conditions in Latin America and the Caribbean and various other factors. The Corporation believes that the allowance for losses is adequate as of the balance sheet date; however, future changes to the allowance for losses may be necessary based on changes in any of the factors discussed herein.

The allowance for losses on loan investments reflects estimates of both identified probable losses (specific provision) and probable losses inherent in the portfolio but not specifically identifiable (general provision).

For the specific provision and for loans evaluated for impairment, the determination of the allowance for identified probable losses represents management’s best judgment of the creditworthiness of the borrower and is established based upon the periodic review of individual loan investments. This estimate considers all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the loan’s contractual effective rate, the fair value of collateral less disposal costs, and other market data. Because of the purpose of the Corporation and the nature of the loans, secondary market values are usually not available.

For the general provision, the allowance for losses is established via an internal credit risk classification system that estimates the probable loss inherent in the portfolio based on various analyses. The internal credit risk classification system takes into consideration the risk of the borrower, the associated security or features of the transaction and the country related risk, which combined produce a final rating that reflects the expected losses associated with the transaction.

The Corporation segments its loan portfolio as either financial institutions or corporate loans. Corporate loans are extended to enterprises operating in a variety of sectors further detailed in Note 4. For certain loans, the Corporation has obtained collateral security in the form of mortgages, third-party guarantees and other forms of collateral.

The required allowance for each loan or guarantee exposure considers: (i) the probability of default rate for each risk category and applicable loss emergence period; (ii) the amount of credit exposure in each of these categories; and, (iii) the loss given default ratio.

During 2015, the Corporation refined its loan risk rating process to include a more granular and larger number of risk rating categories (ten rating categories published by S&P as described in Note 4 versus five categories from Moody’s used through 2014). Each loan is individually monitored and rated to assign an applicable probability of default rate and a loss given default ratio (LGD) on at least an annual basis.

- **Probability of Default** — A scorecard is completed that contemplates a variety of borrower-specific considerations including, but not limited to: past experience and available market information, country risk, historical loss experience for similar credits, the risk of correlation or contagion of losses between markets, nonperformance under sponsor guarantees and support

## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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agreements, as well as an analysis of the financial statements and other information provided by the borrower. The scorecard result produces an internal risk rating that is comparable to a long-term issuer credit rating published by Standard & Poor's (S&P) (in 2015 and 2014) and is mapped to historical probability of default rates published by S&P (in 2015) and Moody's (in 2014) for those same rating categories.

- **Loss Given Default** — In 2014, a single LGD ratio was applied to each of the subordinated and secured segments of the portfolio based on average historical loss rate data from Moody's. In 2015, the Corporation introduced a refined model to separately calculate the LGD ratio for each individual loan or guarantee. A scorecard is completed that contemplates a variety of transaction-specific considerations for each loan or guarantee, including, but not limited to: the seniority of the instrument, the collateral type, third party guarantees and jurisdiction risk or creditor rights under the law of the respective country. The scorecard produces a LGD ratio that is calibrated using empirical evidence of over 20 years of historical loss data collected by S&P.

The Corporation utilizes externally provided industry data for probability of default rates and LGD ratios to calculate the allowance for losses because of the Corporation's limited historical loss experience, relatively small volume of business (less than 250 loans), and variation in loan size, sector and geographic dispersion of the portfolio.

Loans are charged off when the Corporation has exhausted all possible means of recovery, by reducing the loan and related allowance for losses on loan investments. Such reductions in the allowance are partially offset by recoveries, if any, associated with previously charged off loans.

**Revenue recognition on loan investments** – Interest and fees are recognized as income in the periods in which they are earned. A loan is generally placed in nonaccrual status where collectability is in doubt or when payments of interest or principal are past due more than 90 days. The Corporation does not recognize income on loans in nonaccrual status and any uncollected interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when the payment is received and is returned to accrual status once management has concluded that the borrower's ability to make periodic interest and principal payments has been demonstrated. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income, included in Accounts payable and other liabilities in the balance sheet, and credited to income only when the related principal is received. Such capitalization is considered in the computation of the Allowance for losses on loan investments in the balance sheet.

Net loan origination fees and costs, included in Receivables and other assets in the balance sheet, are deferred and amortized over the life of the loan on a straight-line basis, which approximates how costs would be reflected under the effective interest method.

**Revenue recognition on equity investments** – Dividend and profit participations received from equity investments that are accounted for under the cost method are recorded as income when such distributions are declared and paid. Gains on the sale or redemption of equity investments accounted for under the cost less impairment method are recorded as income at disposition.

For LPs carried at fair value under the fair value option, unrealized gains and losses are considered in the determination of net asset value and recorded as Changes in fair value of equity investments in the statement of income.

## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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**Guarantees** – The Corporation offers credit guarantees covering, on a risk-sharing basis, third-party obligations on loans undertaken for or securities issued in support of projects located within the Corporation’s Regional Developing Member Countries to enhance the entity’s credit standing and enable it to complete a wide variety of business transactions. These financial guarantees are commitments issued by the Corporation to guarantee payment performance by a client to a third party. The Corporation’s policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans. Guarantees are regarded as issued when the Corporation executes the guarantee agreement, outstanding when the underlying financial obligation of the third party is incurred, and called when the Corporation’s obligation under the guarantee has been invoked. There are two obligations associated with the guarantees: (1) the stand-ready obligation to perform; and (2) the contingent obligation to make future payments. The stand-ready obligation to perform is recognized at the issuance date at fair value. The contingent liability associated with the financial guarantee is recognized when it is probable that the guarantee will be called and when the amount of the guarantee can be reasonably estimated. Any stand-ready and contingent liabilities associated with guarantees are included in Accounts payable and other liabilities in the balance sheet. The offsetting entry is consideration received or receivable with the latter included in Receivables and other assets in the balance sheet. In the event the guarantees are called, the amount disbursed is recorded as a loan investment and specific reserves are established consistent with the Corporation’s internal credit risk classification system. Income is earned as the Corporation is released from risk.

**Borrowings** – To ensure funds are available for its operational liquidity needs, the Corporation borrows in the international capital markets, offering its debt securities to investors. The Corporation’s borrowings are carried at amortized cost. The amortization of premiums and accretion of discounts is calculated following a methodology that approximates the effective interest method, and is included in Borrowings-related expense in the statement of income.

The unamortized balance of the borrowing issuance costs related to a recognized debt liability is included as a direct deduction from the carrying amount of the debt liability in Borrowings, short-term and Borrowings, long-term in the balance sheet.

Interest expense on borrowings is recognized on an accrual basis and is included in Borrowings-related expense in the statement of income.

**Risk management activities: derivatives used for non-trading purposes** – The Corporation may execute certain derivative instruments for financial risk management purposes. The Corporation manages its exposure to interest rate movements through the use of derivative financial products, which may include interest rate swaps and purchased options positions (i.e., interest rate caps). The derivatives modify the interest rate characteristics of the respective financial instrument to produce the desired interest rate, and none are designated in hedge accounting relationships. The Corporation does not use derivatives for speculative purposes.

Derivatives are recognized in the balance sheet at their fair value and classified as either assets or liabilities, depending on their nature and their net fair value amount. Changes in fair value of borrowings-related derivatives are recorded in Borrowings-related expense in the statement of income. The Corporation held no derivatives as of September 30, 2016 and 2015.

**Deferred expenses** – Costs related to the issuance of debt and other financial arrangements are deferred and amortized over the life of the related debt on a straight-line basis, which approximates

## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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how the costs would be reflected under the effective interest method. The amounts charged to expense are amortized and included in Borrowings-related expense in the statement of income.

**Fixed assets** – The Corporation presents fixed assets at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets, which range from three to seven years.

**Foreign currency transactions** – Assets and liabilities not denominated in United States dollars are translated into U.S. dollar equivalents using the foreign exchange rates at which the related asset or liability could be reasonably settled at the transaction date. Revenues and expenses are translated monthly at amounts that approximate weighted average exchange rates. Resulting gains and losses are included in (Gain)/Loss on foreign exchange transactions, net, in the statement of income.

**Fair value of financial instruments** – The Codification requires entities to disclose information about recurring and non-recurring fair value measurements.

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transfer between market participants at the measurement date under current market conditions. Fair value measurement further assumes that a transaction to sell the asset or liability takes place either in the principal market or, in the absence of a principal market, in the most advantageous market for the asset or liability.

In determining fair value, the Corporation uses various valuation approaches, including market, income and/or cost approaches. The Codification establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1— Unadjusted quoted prices for identical assets or liabilities in active markets.

Assets and liabilities utilizing Level 1 inputs include investment securities that are actively traded and primarily include debt securities of the United States government and agencies.

- Level 2—Valuations based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not actively traded; or pricing models for which all significant inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Assets and liabilities utilizing Level 2 inputs include investment securities that are not actively traded, and primarily include investments in obligations of non-United States governments and agencies, corporate bonds, derivative contracts, and structured borrowings.

## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Assets utilizing Level 3 inputs include certain loans.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Corporation in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value for the majority of the Corporation's financial instruments is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, interest rate yield curves, credit spreads, creditworthiness of the counterparty, option volatility, and currency rates. In accordance with ASC Topic 820, the impact of the Corporation's own credit spreads would be also considered when measuring the fair value of liabilities, including derivative contracts. Where appropriate, valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality, and market liquidity. These adjustments are applied on a consistent basis and are based upon observable inputs, where available.

The following methods and assumptions were used by management in estimating the fair value of the Corporation's financial instruments:

***Cash and cash equivalents:*** The carrying amount reported in the balance sheet approximates fair value.

***Investment securities:*** Fair values for investment securities are based on quoted prices in active markets for identical assets as of the balance sheet date, when observable. For investments for which prices and other relevant information, generated by market transactions involving identical or comparable assets, are not available, the income approach valuation has been employed, using yield curves, bond or credit default swap spreads, and recovery rates based on collateral values as key inputs. Investment securities are generally categorized in Level 1 and Level 2 of the fair value hierarchy.

***Loan investments:*** The Corporation's methodology to measure the fair value of those loans provided to certain financial institutions, and for which a combination of observable and unobservable inputs is generally available, requires the use of estimates and present value calculations of future cash flows. The fair value of loan investments is estimated using recently executed transactions, market price quotations (where observable), and market observable credit default swap levels along with proprietary valuation models where such transactions and quotations are unobservable. Determining future cash flows for fair value estimation purposes is subjective and imprecise, and minor changes in assumptions or methodologies may materially affect the estimated values. The lack of objective pricing standards adds a greater degree of subjectivity and volatility to these derived or estimated fair values.

**Notes to the Financial Statements (Unaudited)**(dollars in thousands, unless otherwise indicated)

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For certain of the Corporation's corporate and financial institution loan investments, it is not practicable to estimate the fair value given the nature and geographic location of the borrower. The Corporation's loan agreements are tailored to the unique risk characteristics and needs of the borrower. Furthermore, there are few, if any, transactions with similar credit ratings, interest rates, and maturity dates. Based on management's experience, it is deemed that there are some countries with no participants interested in the Corporation's loan investments given the unique country risk, size, and term of many of the Corporation's assets and liabilities. Therefore, in accordance with ASC Topic 820, additional disclosures pertinent to estimating fair value, such as the carrying amount, interest rate, and maturity, are provided. Additional information about loan investments is included in Note 9.

**Equity investments:** The Corporation purchases the share capital of private sector enterprises in Latin America and the Caribbean and also invests in LPs. In most cases, market prices are not available, and alternate valuation techniques require a significant degree of judgment. Additional information about LPs carried at fair value is included in Note 9.

The Corporation's direct equity investments are assessed for impairment. However, it is not practicable to precisely determine a fair value in excess of cost as these are custom-tailored private placement transactions operating in the Corporation's Regional Developing Member Countries. Furthermore, contractual clauses generally limit the Corporation's ability to sell or transfer its participation in the Corporation's equity investments given their size and scale.

**Taxes** – The Corporation, its property, other assets, income, and the operations and transactions it carries out pursuant to the Agreement Establishing the Inter-American Investment Corporation are immune from taxation and from custom duties in its member countries.

**Accounting and financial reporting developments** – In August 2016, the FASB issued Accounting Standards Update (ASU or Update) 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*. The amendments in this Update apply to all entities that are required to present a statement of cash flows under Topic 230. The amendments in this Update provide guidance on eight specific cash flow transactions of which the Corporation will monitor for the following four: i) debt prepayment/debt extinguishment costs, ii) settlement of zero coupon debt, iii) separately identifiable cash flows and application of the predominance principle, and iv) distributions received from equity method investees. The amendments in this Update are effective for the Corporation for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted and the amendments in this Update should be applied using a retrospective transition method to each period presented. This ASU is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this Update affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The use of forecasted

**Notes to the Financial Statements (Unaudited)**(dollars in thousands, unless otherwise indicated)

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information incorporates more timely information in the estimate of expected credit loss, which will be more useful to users of the financial statements. The effective dates for this update is annual periods beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). This ASU is expected to change the timing of credit losses recognized in the Corporation's financial position, results of operations, or cash flows.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The amendments in this Update affect entities with transactions included within the scope of Topic 606. The scope of that Topic includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The amendments in this Update do not change the core principles of the guidance. Rather, the amendments in this Update affect only narrow aspects of Topic 606 including clarifying collectability criterion and implementation considerations. The effective dates for the amendment are the same as ASU 2015-14 that is annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted for any entity as of the annual reporting period beginning after December 15, 2016. This ASU is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In April 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing (Topic 606)*. The amendments in this Update affect entities with transactions included within the scope of Topic 606. The amendments in this Update do not change the core principles of the guidance. Rather, the amendments in this Update clarify the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective dates for the amendment are the same as ASU 2015-14. This ASU is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. The amendments clarify the implementation guidance on principal versus agent considerations. The effective dates for the amendment are the same as ASU 2015-14. This ASU is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323)*. The amendments in this Update affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence and permit prospective treatment of the equity method of accounting. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update are effective for the Corporation for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in

**Notes to the Financial Statements (Unaudited)**(dollars in thousands, unless otherwise indicated)

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the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. No additional disclosures are required at transition. This ASU is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued this Update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet this objective, the FASB has amended the Codification and created Topic 842 that supersedes *Topic 840, Leases*. The key change from previous GAAP and Topic 840 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases in the statement of financial position. The amendments in this Update are effective for the Corporation for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments in the Update is permitted for all entities. This ASU is expected to increase the transparency of the Corporation's operating leases on the statement of financial position and cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)*. The amendments in this Update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this Update. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The amendments improve financial reporting by providing relevant information about an entity's equity investments and reducing the number of items that are recognized in other comprehensive income. The amendments in this Update exempt all entities that are not public business entities from disclosing fair value information for financial instruments measured at amortized cost. The amendments in this Update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. Further, the amendments in the Update require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements. The amendments in this Update are effective for the Corporation for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments in the Update is permitted. This ASU is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In August 2015, the FASB issued ASU No. 2015-14 that defers the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, originally issued in May 2014, for all entities for one year. This revenue guidance does not apply to financial instruments and guarantees. This ASU deferred the effective date for the Corporation to the annual reporting period beginning



INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

after December 15, 2018. This ASU is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

### 3. Investment Securities

Trading securities consist of the following:

| USD Thousands            | September 30      |                   |
|--------------------------|-------------------|-------------------|
|                          | 2016              | 2015              |
| Corporate securities     | \$ 327,357        | \$ 349,218        |
| Government securities    | 55,311            | 53,457            |
| Agency securities        | 29,961            | 9,999             |
| Supranational securities | 29,727            | 7,999             |
|                          | <b>\$ 442,356</b> | <b>\$ 420,673</b> |

Net unrealized gains on trading securities were \$829 for the nine months ended September 30, 2016 (\$297 net unrealized gains for the nine months ended September 30, 2015).

The composition of available-for-sale securities is as follows:

| USD Thousands            | September 30      |                   |
|--------------------------|-------------------|-------------------|
|                          | 2016              | 2015              |
| Corporate securities     | \$ 585,085        | \$ 409,004        |
| Agency securities        | 84,427            | 113,029           |
| Supranational securities | -                 | 9,901             |
|                          | <b>\$ 669,512</b> | <b>\$ 531,934</b> |

The fair value of available-for-sale securities is as follows:

| USD Thousands        | September 30, 2016 |                        |                         |                   |
|----------------------|--------------------|------------------------|-------------------------|-------------------|
|                      | Amortized cost     | Gross unrealized gains | Gross unrealized losses | Fair value        |
| Corporate securities | \$ 584,726         | \$ 820                 | \$ (461)                | \$ 585,085        |
| Agency securities    | 83,709             | 718                    | -                       | 84,427            |
|                      | <b>\$ 668,435</b>  | <b>\$ 1,538</b>        | <b>\$ (461)</b>         | <b>\$ 669,512</b> |

  

| USD Thousands            | September 30, 2015 |                        |                         |                   |
|--------------------------|--------------------|------------------------|-------------------------|-------------------|
|                          | Amortized cost     | Gross unrealized gains | Gross unrealized losses | Fair value        |
| Corporate securities     | \$ 408,405         | \$ 990                 | \$ (391)                | \$ 409,004        |
| Agency securities        | 112,084            | 951                    | (6)                     | 113,029           |
| Supranational securities | 9,897              | 4                      | -                       | 9,901             |
|                          | <b>\$ 530,386</b>  | <b>\$ 1,945</b>        | <b>\$ (397)</b>         | <b>\$ 531,934</b> |

INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

The length of time that individual available-for-sale securities have been in a continuous unrealized loss position is as follows:

| USD Thousands        | September 30, 2016  |                 |                   |                 |                   |                 |
|----------------------|---------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
|                      | Less than 12 months |                 | 12 months or more |                 | Total             |                 |
|                      | Fair value          | Unrealized loss | Fair value        | Unrealized loss | Fair value        | Unrealized loss |
| Corporate securities | \$ 207,241          | \$ (324)        | \$ 49,862         | \$ (137)        | \$ 257,103        | \$ (461)        |
|                      | <b>\$ 207,241</b>   | <b>\$ (324)</b> | <b>\$ 49,862</b>  | <b>\$ (137)</b> | <b>\$ 257,103</b> | <b>\$ (461)</b> |

| USD Thousands            | September 30, 2015  |                 |                   |                 |                   |                 |
|--------------------------|---------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
|                          | Less than 12 months |                 | 12 months or more |                 | Total             |                 |
|                          | Fair value          | Unrealized loss | Fair value        | Unrealized loss | Fair value        | Unrealized loss |
| Corporate securities     | \$ 94,850           | \$ (266)        | \$ 19,866         | \$ (125)        | \$ 114,716        | \$ (391)        |
| Agency securities        | 22,127              | (6)             | -                 | -               | 22,127            | (6)             |
| Supranational securities | 2,901               | -               | -                 | -               | 2,901             | -               |
|                          | <b>\$ 119,878</b>   | <b>\$ (272)</b> | <b>\$ 19,866</b>  | <b>\$ (125)</b> | <b>\$ 139,744</b> | <b>\$ (397)</b> |

Changes in available-for-sale securities recognized in Other comprehensive income/(loss) are as follows:

| USD Thousands   | September 30    |                |
|---|-----------------|----------------|
|   | 2016            | 2015           |
| Unrealized gains/(losses) during the period   | \$ 1,471        | \$ (96)        |
| Reclassification of (gains)/losses to net income  | (283)           | -              |
| Changes due to impaired securities  | -               | -              |
| <b>Total recognized in Other comprehensive income/(loss) related to available-for-sale securities</b> | <b>\$ 1,188</b> | <b>\$ (96)</b> |

Investment securities with unrealized losses are the result of pricing changes in the current market environment and not as a result of other-than-temporary credit impairment. As of September 30, 2016, no other-than-temporary impairment has been recognized in the Corporation's available-for-sale investment securities portfolio (none as of September 30, 2015). Further, for securities in an unrealized loss position, the Corporation does not have the intent to sell securities within the available-for-sale portfolio and it is more likely than not that the Corporation will not be required to sell prior to recovery of the non-credit portion recognized in Accumulated other comprehensive income/(loss).

Proceeds from the sale of six available-for-sale securities were \$52,257 during the nine months ended September 30, 2016 (none sold during the nine months ended September 30, 2015). Gross realized gains were \$283 and there were no gross realized losses from the sale of available-for-sale securities during the nine months ended September 30, 2016 (none sold during the nine months ended September 30, 2015). The first-in, first-out identification method was used to determine the cost basis of the securities sold.

The maturity structure of available-for-sale securities is as follows:

| USD Thousands                     | September 30      |                   |
|-----------------------------------|-------------------|-------------------|
|                                   | 2016              | 2015              |
| Within one year                   | \$ 244,564        | \$ 209,870        |
| After one year through five years | 424,948           | 322,064           |
|                                   | <b>\$ 669,512</b> | <b>\$ 531,934</b> |

**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

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For the nine months ended September 30, 2016, interest income, net of amortization of premiums and accretion of discounts, was \$5,996 (\$5,540 for the nine months ended September 30, 2015).

**4. Loan and Equity Investments**

The Corporation has specific metrics for concentrations and monitors its investments in loans for credit risk and investments in equity and LPs for market risk and any potential related effects of geographic concentrations. As of September 30, 2016, the Corporation's largest aggregate investment exposures were in Brazil, Panama and Peru (Brazil, Costa Rica and Peru as of September 30, 2015). As of September 30, 2016, outstanding investments in loans and investments in equity and LPs denominated in foreign currency amounted to \$27,373 (\$48,735 as of September 30, 2015). The Corporation's multi-country loan and equity investment exposures are designated as Regional in the following table.

INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

The distribution of the outstanding portfolio by country and by sector is as follows:

| USD Thousands                     | September 30      |                  |                   |                   |                  |                   |
|-----------------------------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
|                                   | 2016              |                  |                   | 2015              |                  |                   |
|                                   | Loan              | Equity           | Total             | Loan              | Equity           | Total             |
| Brazil                            | \$ 98,712         | \$ 1,583         | \$ 100,295        | \$ 110,182        | \$ 2,079         | \$ 112,261        |
| Panama                            | 94,566            | 4,000            | 98,566            | 62,601            | 4,000            | 66,601            |
| Peru                              | 95,966            | 1,750            | 97,716            | 105,148           | -                | 105,148           |
| Chile                             | 95,857            | 1,600            | 97,457            | 87,646            | 1,600            | 89,246            |
| Costa Rica                        | 83,277            | -                | 83,277            | 106,958           | -                | 106,958           |
| Ecuador                           | 76,826            | -                | 76,826            | 58,431            | -                | 58,431            |
| Mexico                            | 66,479            | 9,832            | 76,311            | 82,569            | 9,706            | 92,275            |
| Colombia                          | 53,738            | 475              | 54,213            | 91,856            | 950              | 92,806            |
| Uruguay                           | 38,436            | -                | 38,436            | 33,425            | -                | 33,425            |
| Regional                          | 17,233            | 12,208           | 29,441            | 16,148            | 7,929            | 24,077            |
| El Salvador                       | 26,405            | -                | 26,405            | 36,152            | -                | 36,152            |
| Nicaragua                         | 24,539            | -                | 24,539            | 24,955            | -                | 24,955            |
| Paraguay                          | 24,337            | -                | 24,337            | 28,117            | -                | 28,117            |
| Dominican Republic                | 10,081            | -                | 10,081            | 14,838            | 205              | 15,043            |
| Suriname                          | 10,000            | -                | 10,000            | -                 | -                | -                 |
| Guatemala                         | 7,973             | -                | 7,973             | 4,302             | -                | 4,302             |
| Honduras                          | 7,279             | -                | 7,279             | 11,070            | -                | 11,070            |
| Argentina                         | 6,809             | 134              | 6,943             | 32,514            | 112              | 32,626            |
| Jamaica                           | 5,995             | -                | 5,995             | 7,765             | -                | 7,765             |
| Haiti                             | 5,987             | -                | 5,987             | 5,482             | -                | 5,482             |
| Plurinational State of Bolivia    | 569               | 3,000            | 3,569             | 1,349             | -                | 1,349             |
| Bahamas                           | 470               | -                | 470               | 587               | -                | 587               |
|                                   | <b>\$ 851,534</b> | <b>\$ 34,582</b> | <b>\$ 886,116</b> | <b>\$ 922,095</b> | <b>\$ 26,581</b> | <b>\$ 948,676</b> |
| Financial Markets                 | \$ 599,380        | \$ 21,085        | \$ 620,465        | \$ 642,079        | \$ 15,426        | \$ 657,505        |
| Industry                          | 71,004            | 5,000            | 76,004            | 64,223            | 3,802            | 68,025            |
| Energy                            | 65,831            | 1,750            | 67,581            | 59,712            | -                | 59,712            |
| Agriculture and Rural Development | 50,789            | -                | 50,789            | 76,266            | -                | 76,266            |
| Transport                         | 27,022            | -                | 27,022            | 33,598            | -                | 33,598            |
| Sustainable Tourism               | 12,295            | -                | 12,295            | 14,428            | -                | 14,428            |
| Science and Technology            | 5,493             | 4,000            | 9,493             | 5,635             | 4,205            | 9,840             |
| Water and Sanitation              | 9,091             | -                | 9,091             | 9,576             | -                | 9,576             |
| Urban Development and Housing     | 2,327             | 2,747            | 5,074             | 7,136             | 3,148            | 10,284            |
| Health                            | 4,795             | -                | 4,795             | 6,282             | -                | 6,282             |
| Private Firms and SME Development | 2,467             | -                | 2,467             | -                 | -                | -                 |
| Education                         | 1,040             | -                | 1,040             | 3,160             | -                | 3,160             |
|                                   | <b>\$ 851,534</b> | <b>\$ 34,582</b> | <b>\$ 886,116</b> | <b>\$ 922,095</b> | <b>\$ 26,581</b> | <b>\$ 948,676</b> |

INTER-AMERICAN INVESTMENT CORPORATION

**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

**Loan and equity investment portfolio**

The Corporation's development-related assets are the result of lending and investing activities that include loans, equity and LP investments, investment securities and guarantees that promote the economic development of the Corporation's Regional Developing Member Countries through the establishment, expansion and modernization of private enterprises. The Corporation's portfolio is segmented between financial institutions and corporates. All development-related assets are individually evaluated for purposes of monitoring and evaluating credit performance and market risk.

The distribution of the outstanding portfolio by investment type is as follows:

|               | <b>September 30, 2016</b>         |                   |                   |
|---------------|-----------------------------------|-------------------|-------------------|
| USD Thousands | <b>Financial<br/>institutions</b> | <b>Corporates</b> | <b>Total</b>      |
| Loan          | \$ 599,380                        | \$ 252,154        | \$ 851,534        |
| Equity        | 21,085                            | 13,497            | 34,582            |
|               | <b>\$ 620,465</b>                 | <b>\$ 265,651</b> | <b>\$ 886,116</b> |

|               | <b>September 30, 2015</b>         |                   |                   |
|---------------|-----------------------------------|-------------------|-------------------|
| USD Thousands | <b>Financial<br/>institutions</b> | <b>Corporates</b> | <b>Total</b>      |
| Loan          | \$ 642,079                        | \$ 280,016        | \$ 922,095        |
| Equity        | 15,426                            | 11,155            | 26,581            |
|               | <b>\$ 657,505</b>                 | <b>\$ 291,171</b> | <b>\$ 948,676</b> |

Loan and equity investments committed but not disbursed (net of cancellations) are summarized below:

| USD Thousands | <b>September 30, 2016</b> |
|---------------|---------------------------|
| Loan          | \$ 88,264                 |
| Equity        | 18,590                    |
|               | <b>\$ 106,854</b>         |

INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

**Loan investments**

The Corporation's loans accrue interest at fixed and variable rates. The unpaid principal balance of the fixed rate loan portfolio amounted to \$156,045 as of September 30, 2016 (\$183,534 as of September 30, 2015). The Corporation's variable rate loans generally reprice within one year.

The Corporation's nonaccrual loans on which the accrual of interest has been discontinued totaled \$9,627 as of September 30, 2016 (\$12,278 as of September 30, 2015). Nonaccrual loans that are current totaled \$954 as of September 30, 2016 (\$1,646 as of September 30, 2015). Interest collected on loans in nonaccrual status for the nine months ended September 30, 2016, was \$136 (\$1,524 for the nine months ended September 30, 2015).

The Corporation's investment in impaired loans as of September 30, 2016, was \$10,427 (\$10,632 as of September 30, 2015). The average investment in impaired loans for the nine months ended September 30, 2016, was \$9,531 (\$12,889 for the nine months ended September 30, 2015). The total amount of the allowance related to impaired loans as of September 30, 2016 and 2015, was \$6,167 and \$6,570, respectively. The Corporation's loan investment portfolio includes one loan that was considered a troubled debt restructuring as of September 30, 2016, and is considered within the impaired loans as of September 30, 2016. For the nine months ended September 30, 2015, there were no troubled debt restructurings within the loan portfolio.

Changes in the allowance for loan losses by investment type are summarized below:

| USD Thousands                        | September 30, 2016     |                  |                  | September 30, 2015     |                  |                  |
|--------------------------------------|------------------------|------------------|------------------|------------------------|------------------|------------------|
|                                      | Financial institutions | Corporates       | Total            | Financial institutions | Corporates       | Total            |
| Balance as of January 1              | \$ 18,031              | \$ 18,715        | \$ 36,746        | \$ 19,794              | \$ 28,101        | \$ 47,895        |
| Loan investments charged off, net    | -                      | (67)             | (67)             | -                      | (5,309)          | (5,309)          |
| Recoveries                           | -                      | 227              | 227              | -                      | 397              | 397              |
| Provision for loan investment losses | 83                     | (1,184)          | (1,101)          | (1,712)                | (1,663)          | (3,375)          |
| Balance as of September 30           | <b>\$ 18,114</b>       | <b>\$ 17,691</b> | <b>\$ 35,805</b> | <b>\$ 18,082</b>       | <b>\$ 21,526</b> | <b>\$ 39,608</b> |

**Equity investments**

As of September 30, 2016, the Corporation had nine direct equity investments (nine as of September 30, 2015) with a carrying value of \$21,017 (\$16,139 as of September 30, 2015). The direct equity investments are reported at cost less impairment. Other-than-temporary impairment losses for the nine months ended September 30, 2016 were \$281 (other-than-temporary impairment losses as of September 30, 2015 were \$710).

The Corporation had twelve investments in LPs at fair value of \$13,565 as of September 30, 2016 (nine at fair value of \$10,442 as of September 30, 2015). The Corporation's investments in LPs may generally be liquidated over a period of 10 years with up to two one-year extensions.

INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

**5. Receivables and Other Assets**

Receivables and other assets are summarized below:

| USD Thousands                                | September 30     |                  |
|--|------------------|------------------|
|  | 2016             | 2015             |
| Other current assets                         |                  |                  |
| Interest receivable on loan investments      | \$ 5,001         | \$ 5,581         |
| Interest receivable on investment securities | 2,590            | 1,982            |
| Other current assets                         | 14,328           | 4,709            |
|  | <u>21,919</u>    | <u>12,272</u>    |
| Other noncurrent assets                      |                  |                  |
| Postretirement Benefit Plan, net asset       | 1,946            | -                |
| Other noncurrent assets                      | 2,557            | 1,554            |
|  | <u>4,503</u>     | <u>1,554</u>     |
| <b>Total receivables and other assets</b>    | <b>\$ 26,422</b> | <b>\$ 13,826</b> |

As of September 30, 2016, Other current assets include a receivable due from IDB Group entities of \$8,254. Refer to Note 12. As of September 30, 2016, the Postretirement Benefit Plan net asset reflects the funded status of the Plan. Refer to Note 13.

**6. Accounts Payable and Other Liabilities**

Accounts payable and other liabilities are summarized below:

| USD Thousands  | September 30     |                  |
|--|------------------|------------------|
|  | 2016             | 2015             |
| Pension Plan, net liability                          | \$ 24,107        | \$ 22,221        |
| Accounts payable and other liabilities               | 22,062           | 1,713            |
| Deferred revenue                                     | 16,160           | 6,057            |
| Employment benefits payable                          | 8,244            | 7,445            |
| Due to other IDB Group entities                      | -                | 2,516            |
| Postretirement Benefit Plan, net liability           | -                | 2,680            |
| <b>Total accounts payables and other liabilities</b> | <b>\$ 70,573</b> | <b>\$ 42,632</b> |

As of September 30, 2016 and 2015, the Pension Plan net liability reflects the underfunded status of the Plan. As of September 30, 2015, the Postretirement Benefit Plan net liability reflects the underfunded status of the Plan. Refer to Note 13.

INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

**7. Borrowings**

Borrowings outstanding by currency are as follows:

| USD Thousands          | September 30        |                       |                    |                       |
|------------------------|---------------------|-----------------------|--------------------|-----------------------|
|                        | 2016                |                       | 2015               |                       |
|                        | Amount outstanding  | Weighted average cost | Amount outstanding | Weighted average cost |
| U.S. dollar            | \$ 1,036,040        | 1.02%                 | \$ 942,967         | 0.63%                 |
| Mexican peso           | 30,964              | 4.59%                 | 38,450             | 3.57%                 |
| Brazilian real         | -                   | -                     | 11,329             | 10.20%                |
| Euro                   | 709                 | 0.74%                 | 1,058              | 0.89%                 |
|                        | <b>\$ 1,067,713</b> |                       | <b>\$ 993,804</b>  |                       |
| Borrowings, short-term | (30,651)            |                       | (449,611)          |                       |
| Borrowings, long-term  | <b>\$ 1,037,062</b> |                       | <b>\$ 544,193</b>  |                       |

The Corporation's overall funding plan considers the liquidity forecast and strategy. The current liquidity risk strategy requires the Corporation to have sufficient liquidity available to cover projected operational liquidity needs for at least 18 months. The operational liquidity needs include projected disbursements, administrative and other expenses, and maturing borrowings, effectively requiring that upcoming maturities are generally funded at least 18 months in advance.

The Corporation has available a renewable credit facility with the IDB amounting to \$300,000, in place since 1997. In August 2008, the Corporation borrowed \$100,000 under this facility and \$200,000 remains available for disbursement. Borrowings under the IDB facility are due fifteen years after the respective disbursement. This facility has been renewed four times and expires in November 2020. As of September 30, 2016, the Corporation has \$30,964 (600 million Mexican pesos) outstanding from its foreign-currency line of credit (1,000 million Mexican pesos). This borrowing is due to be repaid in November 2016 and the facility is renewable and expires in April 2018. Other credit facilities available amount to \$160,000 as of September 30, 2016 that will expire over the next two years.

On October 2, 2014, the Corporation issued its second \$400,000 U.S.-dollar denominated, 3-month LIBOR plus 0.14% notes under its EMTN Program, maturing in 2017. Interest on the notes is payable quarterly.

On April 27, 2016, the Corporation issued its third \$500,000 U.S.-dollar denominated, 3-month LIBOR plus 0.30% notes under its EMTN Program, maturing in 2019. Interest on the notes is payable quarterly.

The maturity structure of gross borrowings outstanding is as follows:

| USD Thousands | 2016             | 2017              | 2018          | 2019              | 2020        | Through 2023      |
|---------------|------------------|-------------------|---------------|-------------------|-------------|-------------------|
| Borrowings    | \$ 30,964        | \$ 400,000        | \$ 709        | \$ 500,000        | \$ -        | \$ 136,667        |
|               | <b>\$ 30,964</b> | <b>\$ 400,000</b> | <b>\$ 709</b> | <b>\$ 500,000</b> | <b>\$ -</b> | <b>\$ 136,667</b> |



## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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For the nine months ended September 30, 2016, Borrowings-related expense includes interest expense of \$8,628 that includes the amortization of debt issuance costs of \$181 (\$6,893 for the nine months ended September 30, 2015 that includes debt issuance costs of \$269). The unamortized balance of the Corporation's debt issuance cost asset amounts to \$627 as of September 30, 2016 (\$370 as of September 30, 2015).

### 8. Capital

The Corporation's original authorized share capital was increased from \$200 million to \$705.9 million, equivalent to 70,590 shares, through a \$500 million general capital increase approved in 1999 (GCI-I), and several subsequent special increases. These increases allocated a total of \$505.9 million for subscriptions by new and existing member countries, with a par value and issuance price of ten thousand dollars each. As of September 30, 2016, 4 shares of GCI-I remain unpaid and are expected to be reallocated per the terms and conditions agreed by the Board of Executive Directors to reallocate shares corresponding to the Corporation's Second General Capital Increase (GCI-II).

On March 30, 2015, the IIC's Board of Governors authorized the Corporation's GCI-II for \$2.03 billion. The capitalization increase is comprised of (i) \$1.305 million in fresh capital to be paid by the IIC shareholders during the 2016-2022 period; and (ii) annual transfers from the IDB, on behalf of its shareholders, to be made to the Corporation during the period 2018-2025, totaling \$725 million for the entire period, and conditional upon annual approval by the IDB Board of Governors. The GCI-II increases the Corporation's authorized capital stock by 125,474 shares – 80,662 shares corresponding to new capital contributions payable by the countries (Annex A to the Board resolution) and 44,812 shares corresponding to transfers from the IDB on behalf of its member countries (Annex B to the Board resolution) – with an issuance price of \$16,178.60 per share. As of September 30, 2016, all Annex A shares are expected to be subscribed. Subscribed shares are recorded at the date of the subscription instrument at the stock issuance price and are expected to be paid in over time. With this capital increase, the Corporation's total authorized shares amount to 196,064.

Under the Agreement Establishing the Inter-American Investment Corporation, any member may withdraw from the Corporation, which shall become effective on the date specified in the notice but in no event prior to six months from the delivery date of such notice to the Corporation. Even after withdrawing, a member shall remain liable for all obligations to the Corporation to which it was subject on the date of delivery of the withdrawal notice. In the event a member withdraws from the Corporation, the Corporation and the member may agree to the repurchase of the shares of said member on terms appropriate under the circumstances. If such agreement is not reached within three months of the withdrawal notice, or within a term agreed upon between both parties, the repurchase price of the member's shares shall be equal to the book value on the date when the member ceases to belong to the Corporation, such book value to be determined by the Corporation's audited financial statements. Payment for shares shall be made in such installments, times, and currencies as the Corporation shall determine, taking into account its financial position.

INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

The following table lists the capital stock subscribed and subscriptions receivable from members:

|                                  | September 30   |                     |                                 |                               |
|----------------------------------|----------------|---------------------|---------------------------------|-------------------------------|
|                                  | Shares         | Amount              | Additional<br>paid-in capital * | Receivable<br>from members ** |
|                                  | USD Thousands  |                     |                                 |                               |
| Argentina                        | 17,376         | \$ 173,760          | \$ 57,381                       | \$ 150,251                    |
| Austria                          | 887            | 8,870               | 3,349                           | 8,769                         |
| Bahamas                          | 308            | 3,080               | 1,013                           | 2,653                         |
| Barbados                         | 220            | 2,200               | 735                             | 1,440                         |
| Belgium                          | 169            | 1,690               | -                               | -                             |
| Belize                           | 101            | 1,010               | -                               | -                             |
| Bolivarian Republic of Venezuela | 10,448         | 104,480             | 37,918                          | 99,288                        |
| Brazil                           | 17,376         | 173,760             | 57,381                          | 150,251                       |
| Canada                           | 4,088          | 40,880              | 24,331                          | 63,711                        |
| Chile                            | 4,456          | 44,560              | 15,156                          | 39,686                        |
| Colombia                         | 4,456          | 44,560              | 14,643                          | 38,343                        |
| Costa Rica                       | 671            | 6,710               | 2,206                           | 4,498                         |
| Denmark                          | 1,071          | 10,710              | -                               | -                             |
| Dominican Republic               | 933            | 9,330               | 3,065                           | 8,025                         |
| Ecuador                          | 942            | 9,420               | 3,120                           | 8,169                         |
| El Salvador                      | 671            | 6,710               | 2,206                           | 5,776                         |
| Finland                          | 1,021          | 10,210              | 3,880                           | 10,160                        |
| France                           | 2,868          | 28,680              | 4,362                           | 11,422                        |
| Germany                          | 1,334          | 13,340              | -                               | -                             |
| Guatemala                        | 897            | 8,970               | 2,947                           | 7,717                         |
| Guyana                           | 256            | 2,560               | 840                             | 1,715                         |
| Haiti                            | 671            | 6,710               | 2,206                           | 5,776                         |
| Honduras                         | 671            | 6,710               | 2,206                           | 5,776                         |
| Israel                           | 391            | 3,910               | 1,347                           | 3,527                         |
| Italy                            | 4,619          | 46,190              | 15,181                          | 39,751                        |
| Jamaica                          | 420            | 4,200               | -                               | -                             |
| Japan                            | 4,950          | 49,500              | 15,187                          | 39,767                        |
| Mexico                           | 11,124         | 111,240             | 36,559                          | 95,729                        |
| Netherlands                      | 1,071          | 10,710              | -                               | -                             |
| Nicaragua                        | 671            | 6,710               | 2,206                           | 5,776                         |
| Norway                           | 1,016          | 10,160              | 3,849                           | 10,079                        |
| Panama                           | 972            | 9,720               | 3,985                           | 10,435                        |
| Paraguay                         | 705            | 7,050               | 2,336                           | 6,116                         |
| People's Republic of China       | 9,021          | 90,210              | 54,773                          | 143,423                       |
| Peru                             | 5,172          | 51,720              | 19,067                          | 49,927                        |
| Plurinational State of Bolivia   | 1,398          | 13,980              | 4,622                           | 12,102                        |
| Portugal                         | 389            | 3,890               | 1,279                           | 3,349                         |
| Republic of Korea                | 8,293          | 82,930              | 50,275                          | 131,645                       |
| Spain                            | 6,962          | 69,620              | 27,618                          | 72,318                        |
| Suriname                         | 105            | 1,050               | -                               | 40                            |
| Sweden                           | 946            | 9,460               | 3,417                           | 8,947                         |
| Switzerland                      | 2,288          | 22,880              | 7,519                           | 19,689                        |
| Trinidad and Tobago              | 671            | 6,710               | 2,206                           | 5,776                         |
| United States                    | 16,019         | 160,190             | -                               | -                             |
| Uruguay                          | 1,849          | 18,490              | 6,098                           | 15,968                        |
| <b>Total 2016</b>                | <b>150,943</b> | <b>\$ 1,509,430</b> | <b>\$ 496,469</b>               | <b>\$ 1,297,790</b>           |
| <b>Total 2015</b>                | <b>120,704</b> | <b>\$ 1,207,040</b> | <b>\$ 309,634</b>               | <b>\$ 813,511</b>             |

\* Represents the amount in addition to par value subscribed by member countries under GCI-II.

\*\* Represents receivable from members under GCI-I and GCI-II.

INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

**9. Measurements and Changes in Fair Value**

The Corporation's assets recorded at fair value have been categorized based on a fair value hierarchy in accordance with ASC Topic 820.

The following fair value hierarchy tables present information about the Corporation's assets measured at fair value on a recurring basis:

| USD Thousands            | Balance as of<br>September 30, 2016 | Quoted prices in<br>active markets for<br>identical assets<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) |
|--------------------------|-------------------------------------|---|---|
| <b>ASSETS</b>            |                                     |   |   |
| Corporate securities     | \$ 912,442                          | \$ -  | \$ 912,442  |
| Agency securities        | 114,388                             | -   | 114,388   |
| Government securities    | 55,311                              | -   | 55,311  |
| Supranational securities | 29,727                              | -   | 29,727  |
|                          | <b>\$ 1,111,868</b>                 | <b>\$ -</b>   | <b>\$ 1,111,868</b>                                 |

| USD Thousands            | Balance as of<br>September 30, 2015 | Quoted prices in<br>active markets for<br>identical assets<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) |
|--------------------------|-------------------------------------|---|---|
| <b>ASSETS</b>            |                                     |   |   |
| Corporate securities     | \$ 758,222                          | \$ -  | \$ 758,222  |
| Agency securities        | 123,028                             | -   | 123,028   |
| Government securities    | 53,457                              | -   | 53,457  |
| Supranational securities | 17,900                              | -   | 17,900  |
|                          | <b>\$ 952,607</b>                   | <b>\$ -</b>   | <b>\$ 952,607</b>                                   |

INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

The following table presents gains and losses due to changes in fair value, including foreign currency impact, for items measured at fair value for the nine months ended September 30, 2016:

| USD Thousands            | <b>Changes in fair value<br/>included in earnings for<br/>the nine months ended<br/>September 30</b> |              |
|--------------------------|--|--------------|
| Corporate securities     | \$   | 1,061        |
| Government securities    |  | 433          |
| Supranational securities |  | 191          |
| Agency securities        |  | 56           |
| Limited partnerships     |  | 1,117        |
|                          | <b>\$</b>  | <b>2,858</b> |

The following table presents gains and losses due to changes in fair value, including foreign currency impact, for items measured at fair value for the nine months ended September 30, 2015:

| USD Thousands            | <b>Changes in fair value<br/>included in earnings for<br/>the nine months ended<br/>September 30</b> |                |
|--------------------------|--|----------------|
| Corporate securities     | \$   | 368            |
| Government securities    |  | 151            |
| Supranational securities |  | 31             |
| Agency securities        |  | 31             |
| Limited partnerships     |  | (3,008)        |
|                          | <b>\$</b>  | <b>(2,427)</b> |

Certain of the Corporation's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: Cash and cash equivalents, Receivables and other assets, and Accounts payable and other liabilities.

At September 30, 2016, substantially all investment securities are valued based on quoted prices for identical assets or liabilities that are not active, or prices derived from alternative pricing models as these prices are not available from market vendors. These methodologies apply to certain investments in non-U.S. government obligations, agencies, and corporate bonds. Also included are commercial paper (CP) and certificates of deposit (CD) issued on a tailor-made basis under large U.S.-based CP or CD programs. These securities are classified within Level 2 of the fair value hierarchy and are measured at fair value using valuation techniques consistent with the market and income approaches. There were no transfers during the nine months ended September 30, 2016 (none during the nine months ended September 30, 2015).

The Corporation's loans are generally carried at the principal amount outstanding. For disclosure purposes, the Corporation uses a December 31 measurement date to estimate the fair value of its loan

## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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portfolio. Any excess or deficit resulting from the difference between the carrying amounts of the loan portfolio and the fair value presented does not necessarily reflect the realizable values (since the Corporation generally holds investments with contractual maturities with the aim of realizing their recorded values and, therefore, maximizing the developmental aspects of the investment).

The Corporation's borrowings are recorded at historical amounts unless elected for fair value accounting under ASC Topic 825, *Fair Value Option*. The fair value of the Corporation's borrowings is estimated using either quoted market prices or discounted cash flow analyses based on the Corporation's current borrowing rates for similar types of borrowing arrangements. The Corporation held no borrowings at fair value as of September 30, 2016 and 2015.

As a practical expedient, fair value for investments in LPs was determined using the estimated NAV provided by the LPs. The NAVs that have been provided by the LPs are derived from the fair values of the underlying investments as of the reporting date. All investments for which NAV is used as fair value (a) do not have a readily determinable fair value and (b) either prepare financial statements consistent with the measurement principles of an investee company or have the attributes of an investee company. Generally, LPs have finite lives and the Corporation does not sell or redeem its investments in LPs. Proceeds are distributed to the Corporation as the LPs sell the underlying investee company. Adjustments to the net asset value are made when evidence indicates that fair value differs significantly from net asset value.

The carrying value of equity investments reported at cost amounted to \$21,017 as of September 30, 2016 (\$16,139 as of September 30, 2015). For the Corporation's direct equity investments, the investments are evaluated for impairment, however it is not practicable to accurately determine a fair value in excess of cost as these are custom-tailored private placement transactions primarily for enterprises including corporates and financial institutions operating in the Corporation's Regional Developing Member Countries.

The carrying value of equity investments reported at fair value amounted to \$13,565 as of September 30, 2016 (\$10,442 as of September 30, 2015).

### 10. Contingencies

In the ordinary course of business, the Corporation is defendant or codefendant or party in various litigation matters inherent to and typical of the operations in which it is engaged. In the opinion of the Corporation's management, the ultimate resolution of these legal proceedings would not have a material adverse effect on the financial position, results of operations, or cash flows of the Corporation.

### 11. Lending Arrangements

The Corporation mobilizes funds from commercial banks and other financial institutions in connection with certain of its lending arrangements. These arrangements are administered and serviced by the Corporation on behalf of participants. The arrangements are structured such that the participating lenders must fund their respective share of each loan and there is no recourse to the Corporation.

INTER-AMERICAN INVESTMENT CORPORATION  
**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

**12. Related-party Transactions**

The Corporation obtains certain administrative and overhead services from the IDB in areas where common services can be efficiently provided by the IDB. The Corporation has a lease agreement with the IDB for its headquarters office space that will expire in 2020.

The Corporation has incurred the following expenses to the IDB for office space and certain administrative support services:

| USD Thousands                         | Nine months ended September 30 |                 |
|---------------------------------------|--------------------------------|-----------------|
|                                       | 2016                           | 2015            |
| Support services                      | \$ 4,837                       | \$ 594          |
| Office space (headquarters and other) | 3,188                          | 1,718           |
| Other IDB services                    | -                              | 413             |
|                                       | <b>\$ 8,025</b>                | <b>\$ 2,725</b> |

Expected payments under the current lease agreement with the IDB, in addition to the estimated expanded office space for the Reorganization are as follows:

| USD Thousands               | 2016            | 2017            | 2018            | 2019            | 2020            |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Office space (headquarters) | \$ 4,089        | \$ 4,154        | \$ 4,222        | \$ 4,292        | \$ 4,363        |
|                             | <b>\$ 4,089</b> | <b>\$ 4,154</b> | <b>\$ 4,222</b> | <b>\$ 4,292</b> | <b>\$ 4,363</b> |

As of September 30, 2016, receivables from IDB Group entities were \$8,254 (refer to Note 5). As of September 30, 2015, payables due to IDB Group entities were \$2,516 (refer to Note 6).

As of September 30, 2016 and 2015, the Corporation had borrowed \$100,000 from the IDB credit facility. Refer to Note 7.

Following the Reorganization of the IDB Group private sector activities, the Corporation provides expanded services to the IDB related to private sector and NSG activities that include loan origination, execution and monitoring. These expanded services commenced on January 1, 2016 and are described in the Corporation's Purpose. The IDB and the Corporation are negotiating service level agreements for certain administrative and overhead services that include human resources, external relations, budget and administrative functions, secretariat, internal grievance system administration, and information technology support, among others.

The fees earned by the Corporation under these arrangements are \$37,575 for the nine months ended September 30, 2016 (\$75 for the nine months ended September 30, 2015). The expenses incurred under these arrangements are \$4,837 for the nine months ended September 30, 2016 (\$1,007 for the nine months ended September 30, 2015).

## Notes to the Financial Statements (Unaudited)

(dollars in thousands, unless otherwise indicated)

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### 13. Pension and Postretirement Benefit Plans

The IDB sponsors a defined benefit plan (the Pension Plan) covering substantially all staff of the Corporation and the IDB. The Pension Plan covers international and local employees. Under the Pension Plan, benefits are based on years of service and average compensation, with the staff contributing a fixed percentage of remuneration and the Corporation and the IDB contributing the remainder of the actuarially determined cost of future Pension Plan benefits. Any and all contributions to the Pension Plan are irrevocable and are held separately in retirement funds solely for the payment of benefits under the Plan. The Corporation's required contribution to the Pension Plan was \$3,270 and recognized related expenses of \$4,561 for the nine months ended September 30, 2016 (\$2,177 in contributions and \$4,104 in expenses for the nine months ended September 30, 2015).

The Corporation also provides certain health care and other benefits to retirees. All current staff who contribute to the Pension Plan while in active service and who meet certain requirements are eligible for postretirement benefits under the Postretirement Benefit Plan (PRBP). Retirees contribute toward the PRBP based on an established premium schedule. The Corporation contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions and all other assets and income of the PRBP remain the property of the Corporation, they are held and administered separately and apart from the other property and assets of the Corporation solely for the purpose of payment of benefits under the PRBP. The Corporation's required contribution to the PRBP was \$982 and recognized related expenses of \$1,499 for the nine months ended September 30, 2016 (\$2,082 in contributions and recognized related expenses of \$2,082 for the nine months ended September 30, 2015).

Since both the IDB and the Corporation participate in the Pension Plan and the PRBP, each employer presents its respective share of these plans.

The Corporation uses a December 31 measurement date for the Pension Plan and the PRBP. As of that date, the Corporation will determine the net periodic benefit cost for the Pension Plan and PRBP for the year then ending. Periodic contributions to the Plan and PRBP are projected to approximately equal net annual actuarial costs. Contributions made to the Pension Plan and PRBP are expensed based on the actuarial forecast for the year until the net periodic benefit cost is determined. Management considers that the difference between the amount expensed and the net periodic benefit cost for each reporting period will not have a material impact on its financial position or results of operations. Any difference between the amount forecasted and the amount contributed is recorded as prepaid/payable until the net periodic benefit cost is determined.

**Notes to the Financial Statements (Unaudited)**

(dollars in thousands, unless otherwise indicated)

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**14. Management of External Funds**

The Corporation administers on behalf of other entities, which include donors and member countries, funds restricted for specific uses that include the co-financing of certain projects, technical studies for borrowers, project-related studies, and research and training programs. These funds are held in trust by the Corporation and are not commingled with the Corporation's funds, nor are they included in the assets of the Corporation. The Corporation receives a management fee that is generally a percentage of the funds received. This fee is included as an advisory service income in the statement of income.

Effective January 1, 2016, the Corporation began administering certain IDB funds and funds administered by the IDB. These funds are used mainly to co-finance projects between the Corporation and the IDB and to fund technical assistance activities.